



The Jimmy Reid
Foundation

**Municipal Socialism
for
Modern Scotland:
local public
enterprise for the
common good**

**Dave Watson
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<http://reidfoundation.org>

The author

Dave Watson is the Head of Policy and Public Affairs at UNISON Scotland. He is a graduate in law from the University of Strathclyde and a Fellow of the RSA. He manages the union's policy, research, communications and government affairs functions as well as four organising teams. As a public sector trade union official for over 37 years, he has been involved in most of the public service reforms of recent times. 27 years in Scotland, but earlier in his career in England and Wales where he served on a health authority and other public bodies.

He was an expert advisor to the Christie Commission and was also seconded to the Health Department to implement the new devolved government's first HR strategy. He is currently working on the Scottish Government/COSLA Local Governance Review. He has written extensively on public service reform in the media and in other formats and is a regular speaker at conferences on this issue. He was the author of the Reid Foundation paper, 'Public Service Reform in Scotland'. (d.watson@unison.co.uk)

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Executive Summary: Municipal Socialism for Modern Scotland

‘The desire of the Labourist is that all these profits should find their way into the public purse, and be disbursed for the benefit of the public.’ (Quoted by Keir Hardie in ‘From Serfdom to Socialism’, 1907)

- This paper sets out a modern approach to municipal socialism. Not just more efficient service delivery or to raise revenues, but as part of creating a fairer society.
- The 19th Century Liberal reformers, Keir Hardie and the sewer socialists in the USA provide the historical context. Reminding us that in the 1940s municipal ownership provided 30% of local authorities’ income. 21st Century Scotland has its own challenges and this paper argues that local government must again be part of the solution.
- Austerity has created huge financial problems for councils with the burden of cuts largely falling on local government. Public service reform has focused on centralising services, all of which leaves local services underfunded and marginalised.
- The case for municipal socialism is based on collective provision that involves shared risk, wealth redistribution and improving living standards. It also has to involve elements of popular control through participative democracy. Simply delivering more services through a weak local state is not enough.
- This paper identifies a number of services that could be delivered locally through municipal socialism.
- Traditional public services such as housing, social care and childcare have been subjected to market mechanisms and outsourcing. We make the case for integrated services on a public ownership model that addresses the huge challenges these services face.
- Utilities used to be an important part of local government and they remain so in many parts of Europe and North America. The case for municipal energy, transport, water and broadband is being rediscovered across the world. While there are elements of this in Scotland, a much more radical approach is advocated in these chapters.
- Municipal socialism should be part of a new approach to local economic development, often described as the foundational economy. To this we add municipal banking and different models of public finance.
- Information technology will be a key element of service delivery and offers new ways of increasing participative democracy. All too often local and in-house expertise has been ignored in favour of one size fits all solutions offered by multi-national companies with little understanding of local need.
- Finally, we look at strengthening local governance. The modern municipal socialist council should not operate in a Morrisonian, command and control manner. Elections on their own are not sufficient. Local services should be accountable to local people participating as citizens not simple consumers of services.

Introduction

The new Scottish Labour Leader, Richard Leonard MSP, is fond of referring to Keir Hardie's support for municipal socialism. Hardie devotes the second chapter of his book *'From Serfdom to Socialism'*¹ to the subject. Both Richard Leonard and Jeremy Corbyn are leaders who are unafraid to draw upon the traditions of the Labour movement, while recognising that the principles need to be applied in a modern context.

In this paper, it is argued that building socialism from communities, in the way Hardie and others envisaged, points the way to a new approach for local government in Scotland. The polite title for this paper would have been 'Municipal Enterprise', but that would miss the point. This is not just about delivering more efficient services or increasing revenue, important though these are. Radical new thinking about the role of local government has to be part of a wider drive to create a fairer and more equal society.

Part A - Context

Historical context

Keir Hardie and other early evolutionary socialists were influenced by the local government-led social reforms such as those initiated by Joseph Chamberlain as mayor of Birmingham, which included municipal gas and water supplies, clearing slums and the introduction of a city park system. Sidney Webb, wrote in 'Socialism in England'²:

It is not only in matters of sanitation that this 'Municipal Socialism' is progressing. Nearly half the consumers of the Kingdom already consume gas made by themselves as citizens collectively, in 168 different localities, as many as 14 local authorities obtained the power to borrow money to engage in the gas industry in a single year. Water supply is rapidly coming to be universally a matter of public provision, no fewer than 71 separate governing bodies obtaining loans for this purpose in the year 1885-86 alone. The prevailing tendency is for the municipalities to absorb also the tramway industry, 31 localities already owning their own lines, comprising a quarter of the mileage in the Kingdom.

The Fabians were influential in the London County Council and the London School Board, as well as in some other local authorities, through the newly formed Labour Party. A more radical expression of the municipal socialist movement was 'poplarism' in Poplar, east London, led by George Lansbury.

Keir Hardie devoted a chapter in his book *'From Serfdom to Socialism'* to municipal socialism. He drew on older traditions of Rome and Sparta as well as the growth of towns in the Middle Ages, which placed the community above selfish individualism. While we might baulk at such historical examples, the point he was seeking to make is that collective community enterprise transcends ideology. He said: 'The modern Municipal Socialist is thus seen to be no rash innovator, venturing

¹ A new edition was published to mark the centenary of Hardie's death by Lawrence & Wishart with support from the GMB and the Keir Hardie Society.

² 'Socialism in England' by Sidney Webb 1890

into an unknown sphere of public work, but only reverting back to a type of which he need not be ashamed’.

Hardie also argued that, ‘there is no logical halting-place short of complete State Socialism, and the further extension of its trading activities is purely a question of utility.’

At a time when local government budgets are under enormous strain, it is worth remembering that in the 1940s municipal ownership provided 30 per cent of local authorities’ income³.

The cause of municipal socialism was not limited to the UK. American proponents of municipal public ownership, called ‘sewer socialists’, drew inspiration from the UK. At its height in 1912, more than seventy U.S. municipalities had socialist mayors and to this very day public utilities remain important. There are some 2000 municipally owned electric utilities, supplying around a quarter of all energy in the USA. Conservative Nebraskans pay one of the lowest rates for electricity in the nation, and publicly-owned providers are increasing their generation from wind and other renewable sources. Eighty per cent of all Americans receive water from publicly-owned systems at the municipal level.

The roots of municipal socialism in the Nineteenth Century were to cure the many ills that faced communities, particularly in large cities. At the most basic level it was about clean water and sanitation to tackle the spread of disease. Modern Scotland has different ills to cure, but they are no less pernicious. There is something seriously wrong with a society when men in the least deprived areas of Scotland live 12.5 years longer than the most deprived areas. Inequality is the main ‘ill’ facing Twenty-first Century Scotland, and as in past centuries, local government has a key role in finding the solutions.

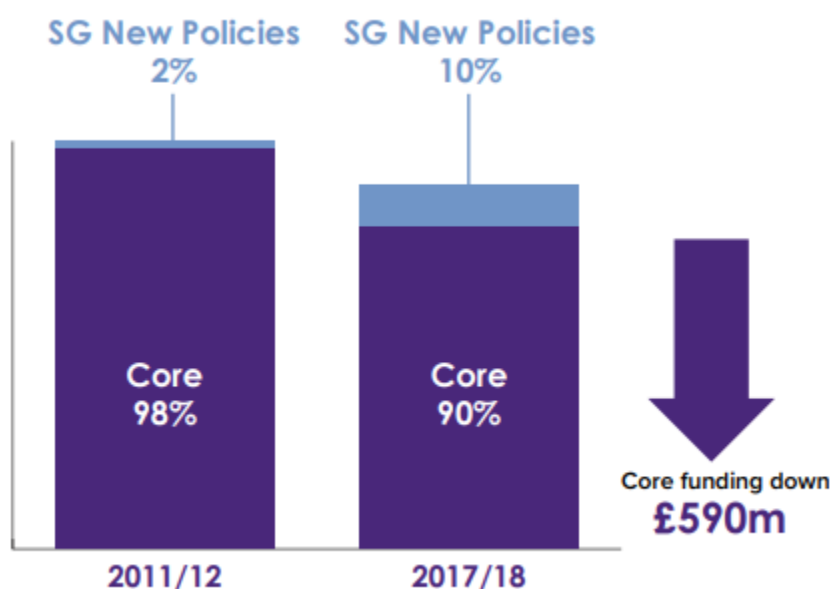
The state of Scottish local government

Given the impact of austerity it is understandable if beleaguered councillors fall into a bunker mentally with the annual ‘patch and mend’ approach to budget setting. Few councillors came into politics to cut local services, but that has been the annual reality.

Councils have had an 8% cut in real terms since 2010/11. This isn't just down to Tory austerity, wicked though that is. Since 2013-14, council budget allocations have been cut by 6.9%, while the Scottish Government's Revenue Budget fell by 1.6%. Yes, there has been extra money for the government's priorities, but there has been a £590m cut in core funding. The money that pays for the basic local services that mark a civilised society.

Councils have plugged the gap with a 13% increase in charges, a regressive tax that hits the poorest in society. They have also used up an unsustainable £79m of reserves along with £500m of cuts. The biggest impact has been in local employment, with 30,000 jobs gone since the crash. If councils have had such a ‘fair deal’, then why are 9 out of 10 austerity job cuts in local government?

³ Robert Millward, *Private and Public Enterprise in Europe: Energy, Telecommunications and Transport 1830-1990* (Cambridge University Press: Cambridge, 2005)



The last minute budget deal last year helped, but it still left a £225m revenue cut, in a year when the Scottish Government budget went up. It was mitigated by £100m from the change in council tax bands and lifting the council tax freeze. However, that still left a revenue shortfall of at least £55m. And that was just the consequences of central budget allocations. Councils faced additional unavoidable commitments like the apprenticeships levy and the cost of an ageing population, not to mention borrowing costs due to high interest debt and PPP schemes.

The draft budget for the coming year proposed no cash increase for local government, which meant a 'real terms' cut in council budgets of around £153m. This was in a year when the Scottish Government had a cash increase in its own budget from Westminster of £188m. They also announced a new pay policy but allocated nothing in the budget to pay for it.

The revised budget agreement with the Greens provided for an additional £159.5m of revenue funding - the equivalent of a standstill budget in 'real terms'. However, that does not mean there won't be more cuts in the coming year. That's because 'real terms' means an assumption that inflation will be 1.4% next year. No one really believes this will happen, certainly not a prudent council finance director. The OBR has forecast that the CPI will be 2.4% next year and the RPI 3.3%. Pay alone, which is 55% of the budget, will be around double the government's inflation assumption according to the pay policy.

These are the numbers, but what about impact on services? UNISON has outlined the views of staff in twenty 'Damage' reports⁴. The common theme is that jobs are cut while demand increases, leaving staff stressed and demoralised while they attempt to keep basic services going.

Even statutory services have been cut and preventative work dropped almost entirely. An example of this is building control. Even after the Grenfell Tower tragedy, building control staff spend little time inspecting properties, while they cope with vacancies and government bureaucracy.

These cuts have a disproportionate impact on low income families who have a greater reliance on local services. Less obvious is the impact on the economy. The Jimmy Reid Foundation has

⁴ <http://www.unison-scotland.org/campaigns/public-works/damage/>

published⁵ a report commissioned by UNISON Scotland on this issue. It shows how local authority funding is crucial to sustain and grow economic and social benefits to local communities and society in Scotland as a whole.

We simply cannot go on like this. We need proper reform of local finance, including the use of discretionary taxation. An end to ring fencing budgets and for central government to properly fund its own initiatives that are delivered locally.

This is the very challenging financial context and one that isn't going to get better soon, as even a cursory glance at the medium term financial strategies of councils shows. Municipal socialism can help to address those financial challenges as part of a wider reform of local taxation. However, the case for municipal socialism is much more than just financial.

The case for municipal socialism

The basic concept of municipal socialism remains unchanged. It recognises that social change is best advanced through collective provision. The difference between municipal socialism and the Morrisonian forms of public ownership, like nationalised industries, is that municipal socialism can apply to those services that are best delivered locally. It can also be used to promote socialist values when national governments are unwilling to take radical action.

There are many, and sometimes arcane, discussions of the political left about what we mean by socialist values. In this context we mean collective provision that that involves shared risk, wealth redistribution and improving living standards for the many not the few. It also has to involve elements of popular control through participative democracy and these issues are explored later in this paper. Simply delivering more services through a weak local state is not enough.

Given years of neo-liberal economic propaganda, we should not ignore the need to continually make the case for collective provision.

I was participating in a debate on local services last year with a right-wing tank advocating that local services could be delivered by service charges or contracts. If anything, a more radical version of Nicolas Ridley's infamous 1988 pamphlet, *The Local Right – Enabling Not Providing*.⁶ It reminded me that we do have to make the case for collective provision, not just on grounds of efficiency, but on public health grounds that even rich Nineteenth Century Liberals would have recognised. My response was that I might be able to meet the charge for collecting the bins, but my elderly neighbour could not – and the rats were unlikely to respect our privet hedge boundary!

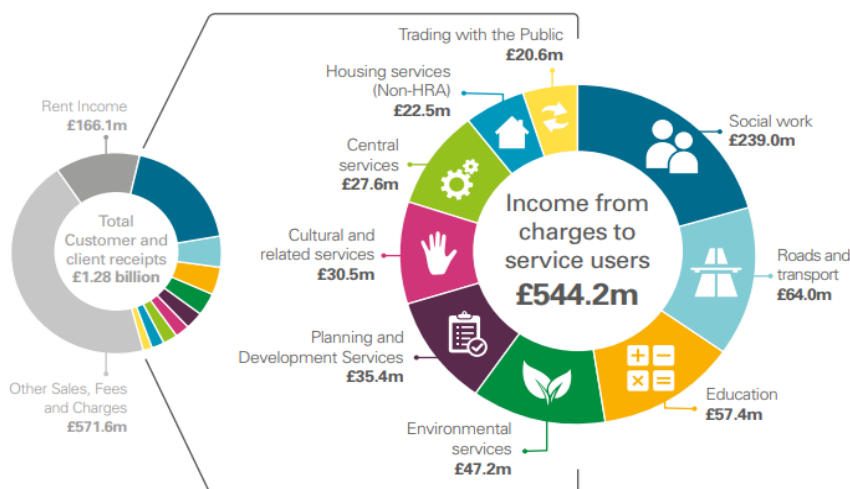
⁵ <http://reidfoundation.org/jrf-unison-scotland-report-on-the-value-of-local-government-to-communities-and-society/>

⁶ <http://www.cps.org.uk/files/reports/original/111027172704-TheLocalRight1988.pdf>

Exhibit 7

Charges to service users

Charges to service users account for over £500 million of councils income.



UNISON Scotland has published⁷ an interactive high street to show not just the range of local services we take for granted, but also some indicative costs if we had to pay for them through charges. As a recent Audit Scotland report⁸ highlighted, more than £500m is now raised by charges, a 13% increase.

I recall listening to a delegate at an SNP conference debate on local government proudly declaring that, 'Scotland is

our local'⁹. I don't believe that reflects local thinking in the SNP, but it is reflected in elements of a more centralist Scottish Government policy, which creates a tension between national and local government. This tension existed in previous devolved administrations, but actions like the centralisation of police and fire, underfunding and ring fencing of local govt has brought these tensions into focus.

Local government has not always responded well to the financial and centralising onslaught. Many councils have simply become the passive administrators of austerity, rather than standing up for their communities. Labour councils in the Thatcher era were at the cutting edge of reform, using their powers to highlight a socialist alternative. Welfare rights initiatives brought millions of pounds into local communities and it was the campaign approach of the Strathclyde water referendum that halted the privatisation of Scotland's water. Sadly, in more recent years, too many councils have lost their radical edge, falling back into administrative responses or the technocratic solutions offered by senior officials and management consultants.

Advocates of municipal socialism have often had to battle their own party as well as the vested interests of capital. Thankfully that is no longer the case within the current UK and Scottish Labour leadership. Richard Leonard, Jeremy Corbyn and John McDonnell have placed a new emphasis on democratised public ownership and radical political decentralisation. As others have highlighted¹⁰ that is truly remarkable coming from the national leadership of a major political party. Jeremy Corbyn has called for local councils to have more freedom to run utilities and services in order to 'roll back the tide of forced privatisation.'

⁷ <http://unison-scotland.org.uk/publicworks/publicservicesatrisk2015.html>

⁸ http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_171128_local_government_finance.pdf

⁹ I expand on this theme in my chapter 'Scotland is NOT our Local' - 'Progressive Federalism' Red Paper 2017. <http://redpaper.net/wp-content/uploads/2017/02/redpaperfeb2017.pdf>

¹⁰ Democracy and decentralisation are their watchwords: for Corbyn and McDonnell, it's municipal socialism reinvented – Hain & Guinan <https://www.opendemocracy.net/uk/thomas-hanna-joe-guinan/democracy-and-decentralisation-are-their-watchwords-for-corbyn-and-mcdonn>

McDonnell has offered an impressively nuanced, cutting-edge analysis of public ownership in the twenty-first century. He argues against Morrisonian models in favour of plural forms of democratised and decentralised common ownership by publics at a variety of scales: 'Decentralisation and social entrepreneurship are part of the left ... Democracy and decentralisation are the watchwords of our socialism.'

Support for municipal socialism, even if not always described as such, is not limited to the Labour Party. There are a number of examples in this paper from across the world. If municipal socialism has not gained much traction in the SNP, neither has privatisation. SNP councillors have been strong supporters of retaining in-house services and bringing arm's length bodies back in-house.

We also have to recognise that our governance structures create some challenges for municipal socialism. Andrew Cumbers of Glasgow University, whose book on extending public ownership¹¹ is an inspiration in this field has said: 'More decentralised forms of public ownership centred around cooperatives and local state ownership might work better around more federal systems with strong traditions of local mutualism in countries such as Germany and the United States than more centralised economic systems such as the UK.'

Building support for the new forms of socialist economics from the ground up could appear far more comprehensible in a municipal context than it can appear at the national level. Equally importantly, it can be done now without waiting for the conquest of state power and a Labour government to take office. What it does need is a new generation of bold socialists in our town halls, willing to be radical municipal socialists.

¹¹ <https://www.zedbooks.net/shop/book/reclaiming-public-ownership/>

Part B - Delivering local services through municipal socialism

Housing

As Shelter Scotland succinctly puts it, 'The housing crisis in Scotland isn't just about houses – it's about people. It's about the family struggling to meet next month's mortgage payment. The young family renting a rundown flat, wondering if they'll ever be able to afford a home of their own. It's about the children living in temporary accommodation, forced to change schools every time they move.'

As Glasgow raises a statue to Mary Barbour, who organised the Glasgow rent strikes a hundred years ago, it is time for a radical new approach to housing policy. Council housing, a core feature of municipal socialism, should be an important part of new approach.

SCOTLAND'S HOUSING CRISIS

As at 31 March 2017, there were:

 **137,100**
households on local authority waiting lists

 **25,100**
households on transfer lists

One in ten households are affected by dampness or condensation.



 **748,000**
households are in fuel poverty - 31% of all households in Scotland.

From a high point of 41-43,000 starts, only around 19,000 new houses are built in Scotland each year. Of those only 1395 were built by councils and a further 4945 by housing associations. The Scottish Government is committed to building 50,000 homes over the lifetime of the current parliament (2016-2021), with at least 35,000 of them to be socially rented. Many are sceptical that even this target will be achieved, although Shelter and the SFHA have recently published a report¹² that shows how it could be delivered.

As with the social care and childcare sectors we probably have too many housing associations in Scotland. Many of them show no sign of building new houses and have settled into a comfortable routine, some way from the radical campaigning housing associations of the

past.

The driving force of new development should be council housing with a target of at least 12,000 social housing new builds each year. House building can be financed by borrowing as rents bring an income flow to repay the capital costs. Mixed tenure properties could be financed using pension funds as set out in a UNISON Scotland paper in 2013¹³. There has been some take up of this idea, but not at the scale required.

A new approach must also learn from the mistakes of the past. Council housing has not always been synonymous with good governance and tenant participation. Social housing has too often been spatially segregated and a new approach should be about creating mixed-income neighbourhoods. It must also empower greater social and geographical mobility, promote regeneration and tackle income inequality through affordable rents.

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https://scotland.shelter.org.uk/_data/assets/pdf_file/0005/1488560/Shelter_AffordableHousingReport_Feb18.pdf/_nocache

13

https://www.pensionsscotland.org/uploads/3/9/5/5/39556225/fundingandbuildingthehomesscotlandneeds_mar2013.pdf

Building new houses is of course only part of the solution. Councils should also have greater powers to tackle fuel poverty, end homelessness and properly regulate the private rented sector. A new 'Mary Barbour Law' as pledged by new Scottish Labour leader, Richard Leonard, would be a significant step forward.

We owe it to people in cramped, damp, temporary, insecure or poorly-repaired living conditions to tackle the housing crisis and councils should play a much larger role.

Social Care

Unlike the NHS, social care in Scotland has become increasingly fragmented and privatised in recent years. This has resulted in a race to the bottom in pay and terms and conditions, which has devalued the essential work that staff undertake. The result is extensive staff shortages and high turnover, which is likely to be exacerbated by Brexit. A total of 59% of care homes reported vacancies, as did 57% of home care services. Almost half of services reported problems in filling vacancies¹⁴.

Staff surveys show that many contractors undertake minimal training and inadequate induction. Staff are even expected to attend training in their own time. Other providers fail to remunerate staff properly for their use of mobile phones, travelling costs and subsistence. There is limited understanding of health and safety, limited supervision, poor work organisation and management.

Raising procurement standards to include the Scottish Living Wage and Fair Work principles is an important step in the right direction. However, as a UNISON survey shows¹⁵, many councils are giving insufficient weight to these factors in contract evaluation and client monitoring is minimal.

Underpinning these issues is the fragmented nature of the sector. There are 13,421 care providers in Scotland, which is a huge number for a small country. The table below gives a breakdown and shows nearly 2,000 social care providers, including over 1,000 care at home services. Many of these very small organisations struggle to provide the level of management required in an increasing complex care environment with more dependent service users.

14 <http://www.careinspectorate.com/images/documents/4091/Staff%20vacancies%20in%20care%20services%20in%202016%20-%20a%20statistical%20report.pdf>

15 <http://www.unison-scotland.org/2017/03/13/delivering-quality-social-care-procurement/>

Summary of No. of registered care services at 31 December 2017

Source: Care Inspectorate Service List at 03 January 2018

Number of Registered Services by Care Service Type and Service Sector (as at 31 December 2017)

CareService	Subtype	Health Board	Local Authority	Private	Voluntary or Not for Profit	Total
Adoption Service	-		32		6	38
Adult Placement Service	-		29		11	40
Care Home Service	Alcohol & Drug Misuse			3	13	16
	Blood Borne Virus				1	1
	Children & Young People	1	121	113	60	295
	Learning Disabilities	1	17	45	96	159
	Mental Health Problems			18	37	55
	Older People	15	111	615	101	842
	Physical and Sensory Impairment		2	10	28	40
	Respite Care and Short Breaks		7	1	6	14
Child Care Agency	-		1	13	11	25
Child Minding	-			5426		5426
Day Care of Children	-	3	1724	1138	836	3701
Fostering Service	-		32		28	60
Housing Support Service	-	4	180	223	661	1068
Nurse Agency	-			79	4	83
Offender Accommodation Service	-		1		4	5
School Care Accommodation Service	Mainstream Residential School				20	20
	Residential Special School			20	17	37
	School Hostel		7			7
Secure Accommodation Service	-		1	1	3	5
Support Service	Care at Home	6	123	371	504	1004
	Other than Care at home	20	215	63	182	480
All types of care service		50	2603	8139	2629	13421

The next table shows the percentage of registered services by sector. The care home sector is now dominated by for-profit providers. Even in the care at home sector, local authority provision is down to 12%. Allowing for size of provider, the local authority sector is somewhat higher than this, but still a clear minority.

% of Registered Services by Care Service Type and Service Sector (as at 31 December 2017)

CareService	Subtype	Health Board	Local Authority	Private	Voluntary or Not for Profit
Adoption Service	-	0.0%	84.2%	0.0%	15.8%
Adult Placement Service	-	0.0%	72.5%	0.0%	27.5%
Care Home Service	Alcohol & Drug Misuse	0.0%	0.0%	18.8%	81.3%
	Blood Borne Virus	0.0%	0.0%	0.0%	100.0%
	Children & Young People	0.3%	41.0%	38.3%	20.3%
	Learning Disabilities	0.6%	10.7%	28.3%	60.4%
	Mental Health Problems	0.0%	0.0%	32.7%	67.3%
	Older People	1.8%	13.2%	73.0%	12.0%
	Physical and Sensory Impairment	0.0%	5.0%	25.0%	70.0%
	Respite Care and Short Breaks	0.0%	50.0%	7.1%	42.9%
Child Care Agency	-	0.0%	4.0%	52.0%	44.0%
Child Minding	-	0.0%	0.0%	100.0%	0.0%
Day Care of Children	-	0.1%	46.6%	30.7%	22.6%
Fostering Service	-	0.0%	53.3%	0.0%	46.7%
Housing Support Service	-	0.4%	16.9%	20.9%	61.9%
Nurse Agency	-	0.0%	0.0%	95.2%	4.8%
Offender Accommodation Service	-	0.0%	20.0%	0.0%	80.0%
School Care Accommodation Service	Mainstream Residential School	0.0%	0.0%	0.0%	100.0%
	Residential Special School	0.0%	0.0%	54.1%	45.9%
	School Hostel	0.0%	100.0%	0.0%	0.0%
Secure Accommodation Service	-	0.0%	20.0%	20.0%	60.0%
Support Service	Care at Home	0.6%	12.3%	37.0%	50.2%
	Other than Care at home	4.2%	44.8%	13.1%	37.9%
All types of care service		0.4%	19.4%	60.6%	19.6%

There are number of voluntary sector providers who are doing their best in difficult circumstances. They can also develop innovative services for specific groups of service users. However, even some of the better providers struggle with poor governance and limited management expertise. The case for consolidation has been recognised by the Scottish Government, but no real action has been taken and in the sector itself. Well, turkeys don't vote for Christmas! A notable exception has been the recent announcement of a partnership between Enable and Sense Scotland.

The big private care providers are based upon such fragile and high-risk investments models (designed to maximise short-term financial returns) that they are at risk of market failure. There have already been such failures and others have warned that they may follow. Contingency plans are constantly being updated by COSLA and the ADSS, although austerity cuts make it increasingly difficult for sufficient resources to be available for this.

Some may argue that greater regulation and monitoring, together with higher workforce standards is enough. Sadly, there is little evidence that this approach will work. The Scottish Government's Stage 2 report on workforce planning in the sector shows how difficult it is to even establish the necessary processes, let alone tackle the issues. There has been an unwillingness even to establish the institutional structures that would strengthen this approach.

The solution is to create a much larger in-house capacity in the NHS and local authorities, democratically accountable to service users and their families. This would still leave a smaller, primarily voluntary sector group of providers, who will need to consolidate their organisations. This can be driven by more effective procurement and regulation.

Bringing all services in-house would be an issue for Self-Directed Support. Personalisation of health and care services has strong advocates, even if delivery has been patchy. Not all service users want this approach and it has resulted in increased bureaucracy and inflexibility. There are also legitimate care standards and workforce concerns. As the authors of a new book¹⁶ on the subject point out, personalisation can also have a double edge with the benefits unevenly distributed by class and education.

There does need to be a debate over the appropriateness of personalisation for all service users reflecting the experience of service users themselves. Where it is a success, it is still possible to retain an element of choice within a delivery model that involves fewer providers and a stronger public service delivery and ethos.

The priority should be to create an entirely new approach to social care in Scotland that isn't based on market mechanisms. As Insa Koch from the LSE recently put it¹⁷, we need an alternative political economy of social care which guarantees the wellbeing of every person.

Early Years and Child Care

The tables above show a similarly fragmented picture in relation to early years provision.

¹⁶ <https://www.routledge.com/Design-for-Personalisation/Kuksa-Fisher/p/book/9781472457394>

¹⁷ <http://blogs.lse.ac.uk/politicsandpolicy/the-labour-of-care/>

Those working in the sector recognise the frustration that many parents feel because the current childcare/early learning provision system is complex, difficult to navigate and extremely expensive. The mixture of costly private and less flexible public provision is leading to confusion; therefore, the planned expansion of the service needs to be adequately funded and delivered by the public sector.

The Scottish Government is adopting a demand side model that will simply exacerbate the problems as it has in England. It is driven more by a failure to recognise the real costs of expanding the service, as highlighted by the recent Audit Scotland report¹⁸. A compromise funding deal has now been reached with COSLA, but this still leaves a shortfall.

The Joseph Rowntree Foundation (JRF) programme paper: Creating an Anti-poverty Childcare System, states that a shift to supply side funding for pre-school childcare services is the most effective route forward:

‘International evidence and the best examples of high quality provision in the UK suggest that the most effective approach to funding pre-school childcare is supply side funding, where investment is made directly in service. This approach provides the means to offer universal access to services and effectively shape the quality, affordability and flexibility’ (Executive Summary page 3)

‘the case for supply funded childcare is simple: it is the most effective means of delivering reliable access to affordable, flexible and high quality childcare regardless of ability to pay’ (Executive Summary page 3)

One of the many advantages of public sector provision is the ability to better co-ordinate childcare with other services. For example, where an extended day nursery is co-located with a primary school on the same campus. This type of delivery means that parents only have to leave and collect their children (aged up to 12 years) from one place. This also improves the transition to formal education at age 5 as they are already familiar with the school.

It is also clear that the private sector is struggling to meet the costs of decent wages and pensions for appropriately qualified staff. We cannot build a new childcare system based on low pay. The staffing aspects of early years provision have recently been investigated by a team of academics led by Professor Findlay at the University of Strathclyde¹⁹. This research highlights that high quality childcare needs a well-qualified workforce. The public sector has fully-qualified staff whereas the private sector is much more reliant on those ‘working towards’ their qualifications. Working with children isn’t just about the time spent with the child. Workers also have to plan, evaluate, and monitor learning and keep detailed records of each child’s progress.

As highlighted above, the social care system is fragmented and blighted by low pay. If the government follows the same route, expecting the private sector to deliver childcare while managing quality through procurement rules, then we risk all the same problems in early years provision.

What parents want is a safe place where their children are cared for and which gives them the chance to reach their full potential regardless of their family income. Investing in local government

18 <http://www.audit-scotland.gov.uk/report/early-learning-and-childcare>

19 <http://www.unison-scotland.org/2017/12/11/early-learning-childcare-research-report/>

early years services and the staff who work there, will be the safest and most cost effective route to a high-quality service.

Municipal energy

Municipal energy has its roots in the 19th century local government but has new adherents from the political left and right. Even the Social Market Foundation is now in favour. This is hardly revolutionary socialism when a quarter of US energy is generated in this way. In Denmark 80% of energy is supplied by collectivist institutions. Municipal energy is the norm in many parts of Europe.

In Scotland, energy has largely been handed over to the big power companies, few of which are any longer based here. Investment decisions are taken in board rooms a long way from Scotland.

The Scottish Government has promoted the idea of a government-owned energy company. It has commissioned a report from Ernst and Young, which sets out some options. Although this report is limited and generally disappointing, it does identify the possibility of incorporating municipal energy within the structure. A more radical approach than this is required through decentralisation by incentivising community energy projects on a much larger scale and through vertically integrated municipal energy companies.

There are some UK examples including Robin Hood Energy in Nottingham. In Scotland a slightly different model is being adopted. 'Our Power'²⁰ is a community benefit society established and owned by a number of local authorities and housing associations. It aims to tackle fuel poverty through the supply of affordable energy, focusing on social housing tenants, and seeks to buy a minimum of 30% of its energy from renewable sources.

These initiatives should be about much more than retailing energy. They should be generating electricity, promoting demand reduction and energy efficiency as well. Fife Council has done some of this with its £1.3 million turbine at the council's recycling and resource recovery facility near Ladybank. This is expected to generate enough electricity to power 200 homes. They also generate clean energy from garden and food waste at the council's anaerobic digester and from landfill gas. Aberdeen has similar projects as well as the city's district heating scheme. A number of councils use solar photovoltaic panels. All of these are welcome, but small scale.

The APSE research paper, 'Municipal Energy: Ensuring councils plan, manage and deliver on local energy', found²¹ that:

- For every £1 invested in renewable energy schemes there is a further £2.90 in cashable benefits
- 17 jobs can be created from every £1 million in energy saving measures;
- Energy efficiency and renewable energy can create 10 times more jobs per unit of electricity generated than fossil fuels; and

²⁰ <http://www.bbc.co.uk/news/uk-scotland-scotland-business-33528729>

²¹ <http://www.apse.org.uk/apse/index.cfm/news/2015/municipal-energy-ensuring-councils-plan-manage-and-deliver-on-local-energy/>

- The UK local government sector annual energy bill of £750 million could be reduced by up to half by leveraging in spending power and using readily available and low cost technologies in existing buildings.

The IPPR, has also made a convincing case²² for local authorities to set up municipally-owned energy companies that can supply electricity and gas at competitive prices and don't have to distribute profits to private shareholders. By targeting those on low incomes, they can also help tackle fuel poverty. The local authority 'brand' may also encourage otherwise reluctant low-income households to switch suppliers and save money.

Work by David Hall (PSIRU University of Greenwich) shows²³ that we could achieve a decentralised and more democratic UK energy system at a cost of £24bn, with annual benefits through lower prices of £3.2bn per year. We could also look at basing compensation on non-amortised assets as they have done in Catalonia. All of this needs a workforce strategy otherwise we won't have enough expertise to develop it.

Transport

Local government's transport role in Scotland is fairly limited and includes planning, integration, financial support and some regulatory duties. With the exception of Edinburgh's Lothian Buses and SPT, the days of the council being the provider of local transport has declined considerably.

Bus de-regulation has not been a success. The market ideology of healthy competition has not happened, meaning bus users often have no alternative but to shut up and take it. In the past ten years bus fares have risen by almost 50%.

Giving local authorities power over buses would enable some democratic oversight in the running of this public service. People seeking election to councils could pledge to improve or alter services and people would have a way to raise their concerns. Councils like Fife have called on the Transport Minister to include such powers in the Transport Bill and he has indicated at least a willingness to consult over franchising. Scottish Labour has tabled a private members bill on the issue.

A stronger role for local government in transport would give them the power to tackle air pollution, reduce climate emissions and halt rising fares.

Broadband

There is a consensus that fast broadband is essential for business growth, with some analysts arguing that 70% of new business growth is internet related. The Scottish and UK governments have been investing in fast broadband, particularly focused on extending coverage in rural areas. However, the pace of improvement has been challenged with governments focusing on different targets²⁴.

22 City Energy - <https://www.ippr.org/publications/city-energy-a-new-powerhouse-for-britain>

23 <http://www.psiru.org/reports/public-ownership-uk-energy-system-%E2%80%93-benefits-costs-and-processes.html>

24 <https://www.scotsman.com/news/politics/row-over-scottish-government-s-broadband-coverage-claim-1-4666756>

This is again a strategy that largely relies on big business models. If we look to the USA²⁵ there has been a big increase in local municipal ownership of high-speed internet systems. Communities invest in telecommunications networks for economic development, improving access to education and health care, price stabilisation, etc. They range from massive networks offering a gig to hundreds of thousands in Tennessee to small towns connecting a few local businesses.

More than 750 communities have established full or partial publicly-owned networks, including 130 with super-fast networks offering at least 1GB services. These publicly-owned systems commonly provide higher speeds, better service, lower costs, and updated infrastructure in communities often neglected by large for-profit cable companies.

In Chattanooga, Tennessee, the city's publicly-owned utility Electric Power Board (EPB) has been operating a fibre network since 2009 and was the first location in the United States to offer a 1 Gigabit service. The emergence of a municipal broadband network in the city has also forced the corporate provider, Comcast, to reluctantly invest in upgrading its service – even as EPB provides faster speeds and lower costs.

Water

Water and wastewater services in Scotland were saved from privatisation, thanks to a strong campaign, particularly the Strathclyde referendum. However, water moved from local government to three regional quangos and then to one national public corporation, Scottish Water.

While Scottish Water has delivered an effective and efficient service, it has failed to fully capitalise on the wider opportunities in a water rich nation like Scotland. Alex Salmond's 'Hydro Nation' outlined some of these, but delivery has been limited.

Scottish Water operates within a market regulatory structure very similar to the England and Wales model. This has also included the use of private finance and the privatisation of non-domestic services. The Reid Foundation has published²⁶ papers by Jim Cuthbert that have highlighted the weaknesses with the cost pricing approach and the impact on public spending and the consumer.

The water trade unions commissioned a report from the University of Strathclyde in 2006, which showed how greater democracy could improve efficiency and lower costs. This was followed by an STUC discussion paper²⁷ 'Its Scotland's Water' which was aimed at taking forward the Scottish public sector model. It offered a range of options that included local authority involvement. 32 separate water organisations is probably not a viable model, but there is plenty of scope for greater democracy and community participation.

Foundational Economy

Traditional approaches to local economic development have focused on top down, the 'centre knows best' plans. These approaches place a focus on attracting large firms to an area, businesses that have few connections to the locality, and are often the first to flee when the economic cycle shifts. Large amounts of public money have been poured into some areas in the hope that it will trickle down to the people who live there - when in practice much of that money didn't stay there.

25 <https://muninetworks.org/communitymap>

26 <http://reidfoundation.org/wp-content/uploads/2014/02/UtilityPricing.pdf>

27 <http://reidfoundation.org/wp-content/uploads/2014/02/UtilityPricing.pdf>

There is a strong case for a new approach to local economies in Scotland, grouped around the concept of the foundational economy.

The foundational economy is built from the activities which provide the essential goods and services for everyday life, regardless of the social status of consumers. These include, for example, infrastructures; utilities; food processing; retailing and distribution; and health, education and welfare. They are generally provided by a mixture of the state (directly or through funding outsourced activities); small and medium enterprise (SME) firms; and much larger companies such as privatised utilities or branches of mobile companies such as the major supermarkets, who often originate from outside the local economy.

This author outlined the work on the foundational economy and the role of local government in a Red Paper publication on Progressive Federalism²⁸. This approach starts by mapping the major inflows of money into an area and then identifying opportunities for increasing the re-circulation of that money to other parts of the local economy. The New Economics Foundation (NEF) has published a useful handbook on how to do this.

The NEF pilots also pointed to the imaginative use of local procurement. They found that sometimes councils can't find local contractors for jobs and have to tender competitively. But working with local residents and community groups they can come up with creative solutions. These include informing local people well in advance of a new contract so they can strengthen their bid, or encouraging outside contractors to train up local people on the job.

These ideas have been highlighted very recently by Shadow Chancellor John McDonnell. He announced²⁹ that the Labour Party is setting up a Community Wealth Building Unit to support co-operatives and mutuals as a means of driving local economic growth.

Over the last couple of years, Preston City Council has been pioneering the community wealth building model in the UK. Inspired by the Cleveland Model in the USA, the Labour & Co-operative City Council of Preston has worked with local anchor institutions such as universities and hospitals, as well as through its own procurement practices, to ensure a greater share of the money it spends stays in the local economy. The council has also supported the growth of Preston worker-owned co-operatives and helped open a credit union to compete with payday loan companies.

Part of the solution is to expand the use of in-house services like building and maintenance, to operate more widely in the local economy. This can drive up standards in a notoriously weak sector using initiatives like Unite's Construction Charter.

We should stop judging the efficiency of the spend solely against the service or product procured. Instead we should focus on how much that spend stimulates the local economy. We also need to judge how far each measure promotes greater equality and contributes to public bodies climate targets. That means specifying the Scottish Living Wage, not awarding contracts to blacklisting or tax dodging companies and other positive procurement policies, including clauses on sustainable procurement.

28 <http://redpaper.net/wp-content/uploads/2016/04/pdf-red-paper.pdf>

29 <https://www.thenews.coop/126193/sector/community/john-mcdonnell-announces-formation-community-wealth-unit/>

Public Finance

Local banking and the foundational economy also have implications for how local government finances local projects. Councils have prudential borrowing powers, which mean they can borrow money at the lowest interest rates, so long as the revenue consequences can be funded. Sadly, councils have not always managed borrowing contracts well as UNISON's 'Combating Austerity' reports³⁰ have shown.

There is also considerable scope for savings in the use of PFI schemes, through closer monitoring and in some cases refinancing schemes. UNISON Scotland's Combating Austerity Implementation Report forecasts that a minimum of £250m could be saved over ten years, with billions more pounds of potential savings if the Scottish Government properly tackles the financial scandal of PPP/PFI. Each pound saved contributes to protecting vital public services and the jobs needed to deliver them.

Unite Scotland has also made the case for debt cancellation of older borrowing contracts. This would need Treasury approval, but there are precedents, including housing stock transfer.

Another resource for municipal socialism is pension funds. The Scottish Local Government Pension Scheme currently manages £43bn of assets. Much more of this resource could be invested in the local economy and used for social good, while still focusing on its primary role of paying pensions. At present far too much is invested in companies in the fossil fuel sector and other areas that contradict the statutory duties of councils.

Banking

The Scottish Government has announced the establishment of a National Investment Bank in the Programme for Government. The plan is for the bank to provide patient capital and support innovation. A full implementation plan³¹ on 'the remit, governance, operating model and approach to the robust management of financial risk' of the bank is led by Tesco Bank CEO Benny Higgins, including discussions with the UK Government over the effective operation of the bank.

In Europe, municipal banking is commonplace. In Germany, savings banks (Sparkassen) started in the first half of the 18th Century and in 1801, the first municipal savings bank was set up in Göttingen. It became a prototype for the German savings banks, which up to now have close connections to local authorities. During the 19th century savings banks spread across the whole country. They played a decisive role in financing the industrialisation of Germany.

The Sparkassen has 70% of the market for SME financing in Germany, providing long-term investment that many Scottish SMEs struggle to access. They also allow anyone to open an account, improving access to financial services for hard to reach groups. 80% of benefit recipients in Germany have a Sparkasse account.

There is increasing interest across the USA in establishing municipal banks. A number already exist and other cities are engaged in preparatory studies. The Roosevelt Institute has published³² an

30 <http://www.unison-scotland.org/campaigns/public-works/combating-austerity/>

31 <http://www.gov.scot/Resource/0053/00532119.pdf>

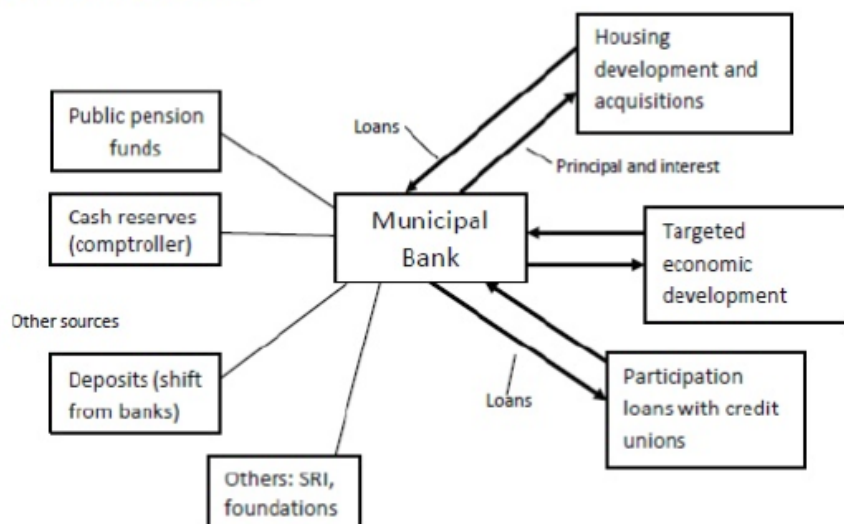
32 <http://rooseveltinstitute.org/municipal-banking-overview/>

overview of how it works and the benefits to the local economy. They argue that private financial institutions have become increasingly disconnected from the real productive economy.

The figure below shows how the basic structure works and includes a role for pension funds. Scotland's local government pension funds now manage a staggering £42bn.

Figure 1: Overview of basic structure

City sources of capital and funding



In the UK, Professor Richard Werner³³ (University of Southampton) has set out the case for establishing community banks. He argues that if the supply of money is rationed, who controls supply has real power. 97% of money is created by commercial banks who invest it (90% plus) in short term unproductive ways that maximise their profits. His solution is network of local banks, kick started by local authorities.

In Scotland, NEF has worked with FoES and Common Weal³⁴ to develop the concept of local and regional banks, supported by a National Investment Bank. The report shows that not only is a new banking system in Scotland possible despite powers over financial services being reserved to Westminster, but the capitalisation of a Scottish National Investment Bank of proportionate size to the German KfW is feasible within the Scottish Government's budget.

The 'transitioning to a low-carbon economy' is suggested as one of three possible missions for the Bank, which will ultimately be set by the Scottish Government. The First Minister said: 'I committed to a publicly-owned national investment bank, which will act as a cornerstone for the economy.'

She later commented in response to a question from Friends of the Earth: 'Given the challenge we face in terms of the transition to a low carbon economy and the potential huge opportunities for our economy of that transition, the idea that you would set up a Scottish National Investment Bank right now without that being a central part of what its mission was, is unthinkable.'

Information Technology

³³ <https://professorwerner.org/>

³⁴ <https://www.commonspace.scot/articles/3641/new-report-banking-common-good>

Information and Communications technology offers opportunities to transform the delivery of services and increases opportunities for citizens to input to the design and delivery of services. There are a number of caveats to the drive for 'digital by default', as set out in the Reid Foundation paper³⁵ on public service reform. Nonetheless, technology remains crucial to modern local government.

Large scale IT projects do not have a good track record in the public or private sector. All too often councils have not been willing or able to put in the necessary levels of funding. Not investing properly will only lead to increased costs in the future.

A UNISON survey³⁶ of public sector IT staff in Scotland found:

- IT strategies too focused on cutting costs rather than service improvement
- Budget cuts are widespread and impacting on their ability to deliver services
- There are clear issues with staff cuts, not just in terms of numbers but the skills mix of the workers who remain
- There is no cutback in demand for services so cuts have led to increased workloads
- Staff morale is very low and most expect things to get worse
- There is a real risk that staff will take up better paid opportunities elsewhere

The solution has all too often led to outsourcing failures. Huge sums have been paid to consultants and IT companies, with very mixed results. Councils, either individually, or in partnership with their neighbours could develop an effective in-house capacity, which could provide the advice and delivery options councils rarely have at present.

Local Governance

It is outwith the scope of this paper to look at local governance in any detail. This has been covered in more detail in other Reid Foundation papers. However, it is important to emphasise that a modern municipal socialist council should not operate in a Morrisonian, command and control manner.

The Scottish Government and COSLA have initiated a review of local governance, which may well recommend a number of ways of strengthening local governance. These could range from better engagement to structural change. There are a number of ideas already being trialled by councils in Scotland including participatory budgeting and citizens juries. The Carnegie Trust, IPPR, NEF and the Fabian Society have all published reports on this issue.

The Co-operative Party has made an important contribution to the debate on ownership in their recent report³⁷ 'Democratic public ownership for the 21st century'. They highlight the irony of the Tories opposing state control, yet they allow state owned corporations from other countries to run services like energy and transport. They outline a range of models of public ownership including municipal enterprise, while recognising the risks of inadequate user participation.

35 <http://reidfoundation.org/2017/01/public-service-reform-policy-paper-launched/public-service-reform-by-davewatson/>

36 <http://www.unison-scotland.org/2015/11/30/disconnected-ict-staff-survey-nov-2015/>

37 https://party.coop/ownershipmatters/summary/?mc_cid=25c543d3ce&mc_eid=27f41efb6c

The delivery of municipal socialism does not necessarily require structural change, but it does need much greater engagement by citizens and staff in the way the council functions.

Conclusion

This paper sets out the case for a new approach to local government based on the modern application of municipal socialism. The case for this is made in councils across the world, who deliver a wide range of services directly, or in partnership with others. A number of services are identified in this paper as suitable for municipal socialism, but it is not an exclusive list. The focus is on those services that are often outsourced or not delivered at all by the public sector. That leaves open a legitimate debate over which other public services should be delivered by councils which are subject to local democratic accountability. Neither does it set out a prescriptive form of service delivery. As there are many roads to socialism the same is certainly true for municipal socialism, which should be about local solutions to local problems. A form of devolution that does not stop at Holyrood. It is also a challenge to councils to strengthen local governance and citizen engagement. The aim is to explore a new approach. Some of which councils could do now under existing powers. Others need a new statutory framework and certainly a different approach to the financing of local government. Municipal socialism is not an end in itself. It is not to be entered into simply to satisfy ideological dogma. Its purpose is to deliver on what should be local government's defining mission - reducing inequality. This is the main 'ill' facing Twenty-first Century Scotland, and as in past centuries, local government has a key role in finding the solutions.